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TAGS: [ECON](#) [EFIN](#) [ETRD](#) [KTDB](#) [PGOV](#) [UG](#)

SUBJECT: UGANDA: AUGUST ECONOMIC REVIEW

REF: A) KAMPALA 0160 B) KAMPALA 0406

Summary

¶1. (SBU) Uganda breaks ground on USD 800 hydroelectric dam which when completed will represent the largest U.S. direct investment in the country. The GOU is reporting a recent uranium discovery by a Canadian firm. The Ministry of Finance is promising tax breaks for foreign investors which is raising concerns in the banking sector that Uganda will not have adequate revenue collection for GOU services. A new report asserts the GOU lost more than USD 87 million to corruption during the last fiscal year. The GOU has announced it will create a separate corruption court as part of its efforts to reduce corruption in the country. The coffee market is making a significant comeback with export earnings nearly doubling for this year's crop. End Summary.

Energy

¶2. (SBU) Construction on the 250 megawatt Bujagali dam began on Wednesday August 22nd. The ground breaking was attended by President Museveni and the Aga Khan whose foundation is providing significant financial support. Both assert that the dam is the key to affordable and accessible electricity in Uganda. U.S. firm Sithe Global, part of the private equity firm Blackstone, will finance close to half of the USD 799 million project. The project is the largest U.S. direct investment in Uganda and is scheduled for completion in 2011.

¶3. (SBU) In an August 14th article, the New Vision newspaper reported the presence of uranium in Uganda. Adam Cegielski, chief executive officer of Canadian based Uranium Hunter Corporation stated that an aerial survey of both Tanzania and Uganda produced positive results. The USD 42 million investigation which began in January is being sponsored by the GOU, World Bank, African Development Fund, and the Nordic Development Fund. Uranium Hunter and NPK Resources have a joint initiative in the Kibaale project which consists of the Kagadi and Nkoko properties. Both hope to pursue the initial phases of uranium exploration in the upcoming months. The Ministry of Energy and Mineral Development Daudi Migereko confirmed the uranium find to Econoff.

Capital Markets and Banking

¶4. (SBU) The GOU will offer foreign investors tax incentives and exemptions ranging from a 10 year tax holiday on VAT to a reduction in VAT on the sale of residential properties. In its July report

Standard Chartered Bank recognized the positive performance of the Uganda Revenue Authority (URA) in increased revenue collection, but criticized the move towards increased tax exemptions. On August 14, the Daily Monitor newspaper quoted Razia Khan, the head of Standard Chartered as stating, "It is not clear how Uganda will compensate for the revenue forgone as a result of these measures." The situation is further complicated by Uganda's lackluster performance in generating revenue. The Standard Chartered report suggested that the GOU could lessen the negative effects of the concessions through an issuance of high yield T-bills and a reduction in its reliance on donors for financing the budget.

Anti-Corruption / Intellectual Rights
Property Protection

5. (SBU) On August 25th the Daily Monitor reported on the release of the National Public Procurement Integrity Survey documenting corruption in the procurement sector. The report reveals that the GOU lost at least USD 87.3 million in the last fiscal year as a result of mismanagement by various government agencies, districts, and municipalities. The report cites high levels of corruption within the Office of the Prime Minister, the Electoral Commission, and the Solicitor General's Office. The report asserts that corruption pervades all aspects of Ugandan society from citizens paying bribes to receive basic healthcare to bribery in public tenders, suggesting that corruption is part of the local culture. Okoth Ochola, head of the Criminal Investigations Directorate asserts that corruption can be decreased by better judicial management of corruption cases and the ratification of the Prevention of Corruption Act.

¶6. (SBU) The Daily Monitor reported on August 14, that the GOU was
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creating an anti-corruption court. The proposal is the result of a broad based program to end corruption. Information Minister Kirunda Kivejinja stated that, by establishing the court, the GOU will be silencing critics and reinforcing its stance against corruption. The court will still require an act of Parliament to be created, which could take months. The proposed court legislation will be supplemented by a proposed whistleblower law which will fill in the gaps of the IGG (Inspector General of Government) Act of 2002 and the Leadership Code Act of 2002.

Agriculture

¶7. (SBU) According to an August 14th report by the New Vision newspaper, Uganda's coffee industry is flourishing. In the last year export earnings have almost doubled and production is steadily rising. The Uganda Coffee Development Authority reports that the boom in business is due to the renewal of GOU replanting programs, favorable weather, and good prices. Uganda is the leading exporter of coffee in Africa, after Ethiopia, and the European Union remains its largest purchaser.

BROWNING